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An A.I.G. Failure Would Have Cost Goldman Sachs, Documents Show

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Since the United States government stepped in to rescue the American International Group in the fall of 2008, Goldman Sachs has maintained that it would have faced few if any losses had the insurer failed. Though it was the insurer's biggest trading partner, Goldman contended that it had bought credit insurance from financial institutions that would have protected it, but it declined to identify the institutions.

Lloyd Blankfein, the chief executive of Goldman Sachs, testifying in April before a Senate subcommittee hearing in Washington.

A Congressional document released late Friday lists those institutions and shows that Goldman was exposed to losses in an A.I.G. default because some of the investment bank's trading partners, such as Citibank and Lehman Brothers, were financially unstable and might have been unable to make good on large claims from Goldman.

The document details every institution that had sold credit insurance on A.I.G. to Goldman as of Sept. 15, 2008, the day before the New York Fed arranged the insurer's rescue with an $85 billion backstop. The document, supplied by Goldman Sachs, was released by Charles E. Grassley of Iowa, the ranking Republican on the Senate Finance Committee.

Goldman had purchased credit protection on A.I.G. worth $402 million from Citigroup and $175 million from Lehman Brothers, the document shows. As of the date of the document, Lehman had already filed for bankruptcy protection.

“This illustrates that the Goldman version of reality is not entirely accurate,” said Christopher Whalen, managing director at Institutional Risk Analytics. “They did have exposure to A.I.G., and that is what drove their behavior in the bailout.”

Lucas van Praag, a Goldman spokesman, reiterated that the firm was fully protected from an A.I.G. default and noted that the protection it had purchased from financial institutions required that they post cash to Goldman to cover rising exposures. “Given that we were receiving and paying collateral on a daily basis, the risk to us of not being able to collect on our hedges had A.I.G. defaulted was de minimus,” Mr. van Praag said.

For decades, Goldman and A.I.G. had a long and fruitful relationship, with A.I.G. insuring billions in mortgage-related securities that Goldman Sachs underwrote. When the mortgage market started to deteriorate in 2007, however, the relationship went sour and Goldman began demanding cash from A.I.G. to cover the declining value of the securities it had insured. A dispute ensued, and Goldman began buying credit insurance on A.I.G. to protect against possible losses arising from its dealings with the company.

According to the document, Goldman held a total of $1.7 billion in insurance on A.I.G. from almost 90 institutions. Its exposure to A.I.G. at that time was $2.6 billion.

Goldman bought most of the insurance from large foreign and domestic banks, including Credit Suisse ($310 million), Morgan Stanley ($243 million) and JPMorgan Chase ($216 million). Goldman also bought $223 million in insurance on A.I.G. from a variety of funds overseen by Pimco, the money management firm.

JPMorgan and Credit Suisse declined to comment late Friday. A Pimco official could not be reached.

Critics of the A.I.G. rescue have characterized it as a “backdoor bailout” of financial institutions that had made mortgage bets guaranteed by the beleaguered insurer. Initially, the government refused to identify these institutions, causing consternation among some in Congress, including Mr. Grassley, who thought the taxpayers should know whom they had benefited.

The issue of the rescue’s beneficiaries surfaced again last Wednesday in hearings sponsored by the Senate Finance Committee. Elizabeth Warren, the chairwoman of the Congressional panel that oversees the government’s responses to the credit crisis, testified that Goldman Sachs had declined to supply her staff with information about the insurance it had bought to protect itself from an A.I.G. failure.

Because the Congressional panel cannot issue subpoenas, Mr. Grassley suggested that his committee request the information from Goldman, subpoenaing the firm if necessary. Goldman quickly submitted the materials.

“It’s as if the New York Fed used A.I.G. as a front man to bail out big banks all over the world,” Mr. Grassley said in a statement. “It took nearly two years for the public to learn these details, and they only were revealed because Congress wouldn’t take no for an answer. Taxpayers deserve to know what happened with their money.”

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